

**Audit Committee
Meeting Minutes
April 5, 2005**

**Council Conference Room, Second Floor, City Hall
3939 North Drinkwater Boulevard
Scottsdale, AZ 85251**

Members Present: Chairman Lane
Committee Member Ecton
Committee Member Littlefield

City Staff Present: Cheryl Barcala, City Auditor
Lisa Blyler, Assistant to the Mayor and Council
Craig Clifford, Financial Services General Manager
Cyndi Coniam, HR Manager
Lisa Murphy, Accounting Director
Melissa Preston, Administrative Secretary
Neal Shearer, Assistant City Manager

The meeting was called to order at 9:07 a.m. by Chairman Lane.

Minutes of the March 23, 2005 Audit Committee Meeting were approved.

General Business:

Item 1 – Ms. Barcala stated that Management agreed in context with all recommendations, but that a few items still needed to be addressed.

Financial Services General Manager Recommendations: Employees hired prior to 1982 are able to cash out a partial amount of their accrued medical leave at retirement. It has been considered taxable compensation and used for the entire premium for both retirees and their dependents. While the retirees and payments are tracked using an Excel spreadsheet, they are not part of the receivable system and tracked as are other retirees. While no errors were found in tracking (with the exception of three that were explained), the system is not automated like the rest of the retirement database. Mr. Clifford responded that an Excel spreadsheet is an adequate method of tracking the information and does not consider it a manual process. The point was made that conversion participants are not fed into the receivables system. There are no journal entries to offset against the receivables processing. Mr. Clifford responded that his technical staff is committed to getting the Fire Department payroll system in place and working on a Legacy conversion, along with other high priority projects. This is not something that his department can address at this time with limited resources. The cost must be weighed against the benefit. The system is working at this time. Mr. Clifford indicated to the Committee that the current process would continue “as-is” unless

otherwise directed. Ms. Barcala added that the recommendation was merely that HR should continue to implement controls to ensure data accuracy as employees retire and are added to the system.

Human Resources General Manager Recommendations: Currently, the conversion can be used to pay for benefit premiums for the employee and his/her dependents up to age 65. City Code states that it can be used for the retiree, but does not mention payment of premiums for dependents. Mr. Shearer stated that the intent of the Code was to allow for payment of premiums for the retiree and his/her dependents and it was an oversight when the Code was written. Chairman Lane and Committee Member Littlefield expressed concern toward the current violation of the Code. Mr. Shearer expressed the need to address the retiree benefits in a comprehensive manner and Committee Member Ecton agreed that the entire package should be reviewed. Changing Code now may impact other aspects of retirement benefits and all related issues should be reviewed at the same time. Ms. Barcala expressed concern over the continued expenditure of funds that do not correspond to Code. Mr. Littlefield again expressed his concern over the violation of City Code and felt that the issue should be addressed quickly, while the other related issues continue to be studied and recommendations made. Mr. Shearer stated that Chapter 14 is the Code in question and, along with the conversion of the Fire Department into the City, there are four or five aspects that must be addressed within that portion of the Code. Ms. Barcala stated that she felt that it was appropriate to look at the entire package in a comprehensive manner. It was decided that Mr. Shearer would expedite the process to bring to Council a request to modify the Code to reflect current procedures. Item 3 will be considered within the comprehensive review. Items 4 and 5 have been completed.

Financial Services General Manager and Human Resources General Manager: Ms. Barcala stated that currently, after the retiree is no longer a participant, remaining dollars are forfeited to the self-funded insurance reserve instead of reverting to the fund from which they came. Management should instead reconsider this treatment and return the monies to the appropriate fund. Conversion participants hired prior to 1982 were taxed on the entire amount converted, while they should only have been taxed on the amount dispersed as a lump sum. The taxation issue has been resolved going forward, but Mr. Clifford expressed the complexity of recalculating the taxation of the conversions and that it could impact retirees' social security benefits, tax returns, and retirement benefits. Lisa Murphy added that in order for the City to correct the errors, all 50 or so retirees in this category would have to provide written permission to do so as it would impact them on many levels as previously stated. It was determined that the task would be too complex to undertake and potentially put the City at risk of litigation. Ms. Barcala stated that Item 3 was discussed with the City Attorney who recommended that further discussion on this item be held with him directly.

Item 2 – A draft version of a customer service satisfactory survey was created to allow audit participants an opportunity to provide feedback about the department and the process. Chairman Lane asked if the participants of the audit in question would know whether the methods used had been reasonable as indicated in Question 4 under, "The

Audit Process.” Ms. Barcala responded that these issues are discussed prior to the audit, so it would not be difficult for those involved to assess whether the methods had been followed as initially indicated. Committee Member Littlefield inquired as to how this information would be used. He was concerned that it may be used for staff performance evaluations. Ms. Barcala indicated that the survey was not a scientifically created questionnaire and was being used merely as a tool to provide interesting feedback, in hopes of improving overall customer service. Committee Member Ecton stated that the questions were posed to be answered in a “yes/no” fashion and could skew the results in a positive manner. Ms. Barcala clarified that the survey would include a list of graded responses to indicate the satisfaction level within each area and the final two questions were open-ended.

A handout was provided by the City Manager regarding the Police Property and Evidence Audit. As the item was not included on the agenda and posted for public notification, it was not discussed at the meeting.

Public Comments – None.

With no further business to discuss, the public meeting of the Audit Committee was adjourned at 10:00 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Melissa Preston". The signature is fluid and cursive, with a long horizontal stroke at the end.

Melissa Preston